

Minneapolis Community Development Agency

## Request for City Council Action

Date: December 16, 2003

To: Council Member Lisa Goodman, Community Development Committee  
Council Member Barbara Johnson, Ways and Means/Budget Committee

Prepared by Bob Lind, Manager, Business Finance Division, Phone 612-673-5068

Approved by Lee Sheehy, CPED Director  
Chuck Lutz, CPED Deputy Director \_\_\_\_\_

**Subject:** Request for Funding of Partnership with the Minneapolis Consortium of Community Developers and the City of Minneapolis on the Small Business Loan Programs and the New Market Tax Credits Program.

**Previous Directives:** Since 1991 the MCDA on an annual basis has requested and the City Council has approved the partnership arrangement with the Minneapolis Consortium of Community Developers to operate the Micro Loan Program and other small business loan programs. Starting in 2004, this request will be coming from the Minneapolis Department of CPED.

**Ward:** City-wide small business loan programs.

**Neighborhood Group Notification:** Activity is not neighborhood-specific.

**Consistency with *Building a City That Works*:** Goal 3, Objective A, Strategy 1: Support strong and diverse neighborhoods where people choose to live through supporting neighborhood retail services, commercial corridors and employment hubs.

**Comprehensive Plan Compliance:** Not applicable.

**Zoning Code Compliance:** Not applicable.

**Impact on the MCDA Budget:**

☐ No financial impact

☐ Action requires an appropriation increase to the MCDA Budget

☐ Action provides increased revenue for appropriation increase

☐ Action requires use of contingency or reserves

☒ Other financial impact (Explain): The \$125,000 in funds have been appropriated in Fund SED (Small Business Finance).

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**Living Wage/Business Subsidy:** Not applicable.

**Job Linkage:** Not applicable.

**Affirmative Action Compliance:** In compliance.

**RECOMMENDATION:**

**City Council Recommendation:** The Executive Director recommends that the City Council authorize an allocation of \$125,000 to the Minneapolis Consortium of Community Developers (MCCD) to extend the partnership on small business loan programs for 2004. Staff also recommends that the City Council reconfirm its April 23, 2003 action directing the CPED Director to enter into an agreement with MCCD to facilitate in 2004 the allocation of the New Market Tax Credits financing to eligible projects in Minneapolis.

**Micro and Small Business Loans.** The Minneapolis Consortium of Community Developers (MCCD), in cooperation with the City of Minneapolis Department of CPED, operates the Micro Loan Program to provide loans to small neighborhood businesses. Most of the Micro Loan Program loans have been under \$10,000. The Micro Loan Program is one of the small business loan programs operated by MCCD along with the Urban Initiative Program and the Minneapolis Empowerment Zone small business loan program. MCCD uses other resources including state, federal and private funds to further capitalize the loan programs it operates, thereby leveraging the funds provided by the City of Minneapolis.

The programs are operated by member organizations of the Consortium which include the Northside Residents Redevelopment Corporation, the Phillips Community Development Corporation, the West Bank Community Development Corporation, Seward Redesign and the Whittier Community Development Corporation.

Through the Micro Loan Program CPED has assisted MCCD in providing financing for more than 310 target area businesses during the last thirteen years. See the attached exhibit for the 32 small businesses that have been assisted during the first nine months of 2003. Consortium loans represent the only significant source of city-assisted financing for start-up and home-based businesses in Minneapolis. The Consortium has initiated an intensive and on-going technical assistance program for its borrowers, in an effort to strengthen their financial, marketing and business management skills.

Staff is proposing to allocate the \$125,000 as a grant to MCCD so it can use these funds to leverage other funding sources, including the federal Community Development Financial Institutions (CDFI) program and the New Market Tax Credits. City funds will be used to capitalize the Micro Loan Program, to support program operations including loan origination and servicing, and to provide technical assistance for loan recipients. The \$125,000 for the Micro Loan Program was included in CPED's 2004 budget (Fund SED - Small Business Finance).

**New Market Tax Credits.** New Market Tax Credits (NMTC) provide federal tax incentives to promote inner-city economic development. This new federal initiative, unveiled by Treasury Secretary Snow in March 2003 will operate through a network of intermediary organizations. CPED's local lending partner, the Community Reinvestment Fund (CRF), is a federally designated intermediary that has received an allocation of \$160 million in NMTCs. CRF will use these credits to offer below-market rate financing to its eligible lending partners. Currently, CPED has a partnership with CRF to provide financing through the Capital Acquisition Loan (CAL) program. CAL enables Minneapolis small businesses to receive long-term fixed rate financing to purchase and rehabilitate small commercial properties. CAL provides financing on a 50-40-10 formula. A private lender finances 50% of the real estate project, CPED facilitates 40% and the borrower provides the remaining 10%. CPED uses CRF to fund its 40% share. Currently, CAL funds carry an interest rate of about 6.0%. NMTC will enable CRF to lower the rate on NMTC-funded CAL loans by 1 1/2 to 2%, thus enabling borrowers to obtain CAL loans at a rate of less than 5% under current market conditions.

Under the guidelines for the NMTCs, the City is not able to participate directly in the federal program because it is a public entity. It needs to partner with a private, non-profit community organization to access NMTC funding through CRF.

CPED is proposing to partner with the Minneapolis Consortium of Community Developers (MCCD) to access NMTCs. Under this partnership, CPED would assign its CAL loans to MCCD. MCCD, in turn, would reassign the loans to CRF. This arrangement will not impose additional liability or expense on the City. CPED will use the existing process and procedures in place for CAL loans. MCCD staff will assist CPED in preparing NMTC loans for submission to CRF.

The attached map shows eligibility areas for NMTC funded projects in Minneapolis. Approximately 75% of the city is eligible for this new federal tax incentive.

**Small Business Loans Closed 1/1/2003 Through 9/30/2003 Under  
Partnership of the MCCC and the City of Minneapolis**

<b><u>Project/ Address</u></b>	<b><u>Loan Amount</u></b>	<b><u>Date Closed</u></b>	<b><u>Ward</u></b>	<b><u>Neighborhood</u></b>
<b>O'Neill's Lawn Service</b> 112 26 <sup>th</sup> St. W.	\$15,000	1/29/03	6	Whittier
<b>Children's Garden Early Child</b> 2508 Golden Valley Road	10,000	3/5/03	5	Willard-Hay
<b>Rincon Ecuadorin</b> 419 Lake St. E.	5,000	3/28/03	8	Central
<b>Phillips Garden</b> 2646 Cedar Ave. S.	30,000	4/10/03	6	Phillips
<b>Tacqueria Los Ocampo</b> 419 Lake St. E.	30,000	4/25/03	8	Central
<b>Restaurant Don Chilo</b> 419 Lake St. E.	30,000	4/25/03	8	Central
<b>Carniceria La Huasteca</b> 419 Lake St. E.	25,000	5/21/03	8	Central
<b>Tacqueria La Michoacana</b> 419 Lake St. E.	20,000	5/21/03	8	Central
<b>Soulful Crosswords</b> 514 39 <sup>th</sup> St. W.	11,474	6/10/03	10	King Field
<b>Pop's Corn</b> 825 Nicollet Mall	10,000	6/19/03	7	Downtown West
<b>Lemieux Construction</b> 5157 Nokomis Ave. S.	12,500	6/26/03	12	Keewaydin
<b>Mercadito Mi Axochiapan</b> 3740 Cedar Ave. S.	15,000	6/30/03	9	Powderhorn Park
<b>Lucky Dragon Riverside</b> 1825 Riverside Ave.	25,000	7/16/03	2	Cedar-Riverside
<b>Diamond Lake Beauty Salon</b> 5928 Portland Ave. S.	15,000	7/16/03	11	Diamond Lake
<b>Soul Tonic, LLC</b> 2545 Aldrich Ave. S.	5,500	7/17/03	10	Lowry Hill East
<b>Reyno Infantil</b> 1501 Lake St. E.	5,000	7/23/03	9	Powderhorn Park
<b>Dulceria el Castillo</b> 419 Lake St. E.	5,000	7/30/03	8	Central
<b>Eastside Food Coop</b> 2516 Central Ave. N.E.	25,000	8/1/03	3	Holland
<b>North Star Wild Rice</b> 1801 Central Ave. N.E.	12,500	8/25/03	1	Windom Park
<b>Salvador Handicrafts</b> 1507 Lake St. E.	10,000	8/27/03	9	Powderhorn Park
<b>Mascots and Costumes</b> 2837 Oakland Ave. S.	50,000	8/29/03	8	Phillips
<b>Cinema Revolution, LLC</b> 2819 Hennepin Ave.	16,500	9/5/03	10	Lowry Hill East
<b>Sindbad Center</b> 2540 Nicollet Ave.	17,500	9/19/03	6	Whittier
<b>Eventos Religiosos</b> 1501 Lake St. E.	15,000	9/17/03	9	Powderhorn Park
<b>Fiesta in America</b> 1501 Lake St. E.	15,000	9/27/03	9	Powderhorn Park

